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PROVIDING FOR THE PURCHASE OF BONDS FOR EMPLOYEES

July 12 (legislative day, July 11), 1955.—Ordered to printed

Mr. Johnston of South Carolina, from the Committee on Post Office and Civil Service, submitted the following

REPORT

[To accompany H. R. 4778]

The Committee on Post Office and Civil Service to whom was referred the bill (H. R. 4778) to provide for the purchase of bonds to cover postmasters, officers, and employees of the Post Office Department and mail clerks of the Armed Forces, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill, as amended, do pass.

AMENDMENT

The committee amendment strikes out all of the House bill after the enacting clause and inserts in lieu thereof a substitute text which appears in the reported bill in italic type. An explanation of the provisions of the committee amendment is contained in the section-by-section analysis of the bill, as reported.

PURPOSE

The purpose of this legislation, as amended, is to provide for the purchase of bonds to cover officers and employees of the Government.

The House bill would authorize the Postmaster General to purchase bonds for officers and employees in the postal establishment when he determines it to be in the interest of the Government. The amendment made by the committee extends the purpose of the bill to include all officers and employees of the Government. The amendment is mandatory in its effect upon the executive branch and is permissive with respect to the legislative and judicial branches.

BACKGROUND

Similar legislation, both limited in application to the Post Office Department, and of general application, has been under consideration for many years. The Internal Revenue Code of 1954, Public Law 591, approved August 16, 1954, contains in section 7803 (c) authority for the Internal Revenue Service to purchase bonds covering its employees.

The bill, as amended, is in line with the modern trend with respect to bonding, as reflected by the fact that private organizations, and State and local governments, almost universally absorb the cost of bonds for their officers and employees. Proposals similar to the provisions of the bill, as recommended by the committee, have been recommended by the Bureau of the Budget, the Civil Service Commission, the General Services Administration, and the General Accounting Office.

SECTION-BY-SECTION ANALYSIS

Section 1 directs the heads of departments and independent establishments (including the government of the District of Columbia), and authorizes appropriate officials of the legislative and judicial branches of the Government, to obtain blanket, position schedule, or other types of surety bonds, covering civilian officers and employees and military personnel thereof, required by law or administrative ruling to be bonded. Premiums for such bonds may cover a period not exceeding 2 years and are to be paid by the Government from any funds of the agency generally available for administrative expenses at the time the premiums become due. The heads of departments and independent establishments may procure bonds if the premium of a bond does not exceed the equivalent of $250 a year. To determine the yearly equivalent the total premium will be divided by the number of years that the bond is to cover. If a bond premium would exceed an equivalent of $250 a year, in the opinion of the head of a department or independent establishment, procurement in such cases is to be made through the Administrator of General Services. In such instances he is required to advertise for bids and to procure the bonds from the lowest responsible bidder whose bid, conforming to the invitation for bids, will be most advantageous to the Government, price and other factors being considered.

Section 14 of title 6 of the United States Code, which first became law in 1909, prohibits the United States from paying any part of the premium or other cost of furnishing bonds of Government officers or employees. Thus, except for Government corporations and a few other agencies, officers and employees are presently required to furnish surety bonds at their own expense. A separate bond for each is now required to be filed and maintained by the Government. Under the proposed legislation the number of bonds would be greatly reduced, thereby reducing the costs of bonding companies and the cost of the Government in maintaining the bonds. The employees would benefit in that they no longer would have to pay the premiums. The cost of the premiums should be borne by the Government since it receives the benefits of financial protection and of the resulting deterrent effect.

Section 2 amends the analysis of title 6 of the United States Code to conform the title of section 14 thereof, to that provided by section 1.

Section 3 provides that the legislation become effective 60 days following its enactment, thus affording sufficient time for necessary administrative arrangements to be made.

The title of the bill is changed to be consistent with the purpose of the bill as amended.

COST

Testimony was presented at the hearings by the Post Office Department and other agencies to the effect that the cost of paying the bond premiums would be offset by economies in administration. The Post Office Department stated that the present administrative cost incident to seeing that all employees are bonded, that premiums are paid, and that bonds do not lapse, approximates $300,000 per annum. The Department estimates that blanket bonds can be obtained for somewhat less than this amount, thus the result being no additional cost and perhaps an actual saving.

AGENCY VIEWS

Following are agency views submitted with respect to a related bill (S. 311):

UNITED STATES CIVIL SERVICE COMMISSION,
Washington, D. C., May 13, 1955.

Hon. OLIN D. JOHNSTON,
Chairman, Committee on Post Office and Civil Service,
United States Senate, Washington, D. C.

DEAR SENATOR JOHNSTON: This is in reply to your letter of February 25, 1955, requesting the Civil Service Commission's views on S. 311 to provide for the purchase of bonds to cover officers and employees of the Government.

The Commission endorses the objectives of S. 311 and favors its enactment insofar as it affects civilian employees in the executive branch.

The bill would amend the United States Code to provide that the heads of executive establishments shall, and officials in the legislative and judicial branches may, obtain surety bonds with Government funds for their civilian and military personnel required by law or regulations to be bonded. Our comments concern only the application of the bill to Federal civilian employees in the executive branch.

At present, the United States Government generally may not pay, out of appropriated funds, any part of the cost of furnishing a bond required by law or otherwise of any officer or employee of the Government. One exception was made to this general rule by section 7803 of Public Law 591, 83d Congress, the Internal Revenue Code of 1954. This section gives the Secretary of the Treasury the option of having either the Treasury Department or the employees themselves pay for required surety bonds covering employees in the Internal Revenue Service. It is not clear whether it is intended that S. 311, if enacted in its present form, would operate to change the optional feature of this existing authority for Government purchase of employee bonds. We suggest that the intent of Congress in this respect be clarified.

We favor enactment of S. 311 for two reasons: (*a*) Surety bonding of employees is primarily for the protection of the Government and (*b*) Government purchase of employee surety bonds would accord with general practice in private industry. We know of no reason why the practice of Government should differ from the practices of other employers in this respect.

The Civil Service Commission is not in a position to discuss the merits of the system proposed in S. 311 for Government purchase of employee surety bonds from commercial bonding companies. We believe that the relative economy and effectiveness of this system as compared with that of alternative systems is a question on which comment should be made by the fiscal agencies of the Government.

We are advised that the Bureau of the Budget has no objection to the submission of this report.

By direction of the Commission:

Sincerely yours,

PHILIP YOUNG, *Chairman.*

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET,
Washington, D. C., March 3, 1955.

Hon. OLIN D. JOHNSTON,
Chairman, Committee on Post Office and Civil Service,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: This is in reply to your request of February 25, 1955, for the views of the Bureau of the Budget on S. 311 to provide for the purchase of bonds to cover officers and employees of the Government.

The purpose of this proposal is to require the heads of departments and establishments to purchase position schedule, blanket, or other types of surety bonds covering employees required to be bonded. The premiums on such bonds would be paid from appropriated funds. At the present time, such employees are required to purchase individual surety bonds from their own funds.

This bill, similar to provisions contained in Public Law 591, August 16, 1954, applicable to the Internal Revenue Service, is in-line with the modern trend with respect to bonding, as reflected by the fact that private organizations, and State and local governments, almost universally absorb the cost of bonds for their officers and employees. The enactment of S. 311 would be favored by this Bureau.

Should the committee wish to look into an alternative approach to the one embodied in this bill, we would suggest consideration of an arrangement under which the Government would itself carry the risk of loss by fraud or mistake.

Sincerely yours,

ROWLAND HUGHES, *Director.*

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, April 18, 1955.

Hon. OLIN D. JOHNSTON,
Chairman, Committee on Post Office and Civil Service,
United States Senate.

DEAR MR. CHAIRMAN: Reference is made to your request of February 25, 1955, acknowledged by telephone March 1, for our views and comments on S. 311, 84th Congress, entitled "A bill to provide for the purchase of bonds to cover officers and employees of the Government."

Proposals embodying the same or similar provisions for purchase by the Government of bonds on a blanket basis have been under consideration by the last several Congresses. In reporting on their various provisions, we have favored the adoption of blanket or position schedule plans of bonding in order to obtain the benefits of flexibility inherent in package coverage and to realize savings that may be expected to result, to employees and the Government, from elimination of individual bonds and their processing costs by both sureties and the Government. We assisted in developing the language now contained in S. 311.

Your committee may wish to consider two amendments designed to clarify the language. First, it is suggested the word "lowest" in line 23, page 2, be eliminated since its inclusion is inconsistent with the provisions of the section which authorize consideration of not only price but also "other factors." Secondly, in order to clarify the liability of old and new sureties during any changeover periods occurring under the legislation, we suggest adding a new sentence to section 1 of the bill as follows: "Whenever any officer or employee is bonded pursuant to the provisions of this section, his surety or sureties on any existing bond shall not be liable for any defaults taking place subsequent to the date of his new coverage."

We strongly recommend enactment of S. 311 with the amendments suggested above. If any further information or assistance is desired, please let us know.

As requested, five copies of this report are transmitted.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as amended by the committee and reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets and new matter is printed in italics):

SECTION 14 OF TITLE 6 OF THE UNITED STATES CODE

[14. Rate of premium on bond; premiums not to be paid by United States. Until otherwise provided by law no bond shall be accepted from any surety or bonding company for any officer or employee of the United States which shall cost more than 35 per centum in excess of the rate of premium charged for a like bond during the calendar year 1908. The United States shall not pay any part of the premium or other cost of furnishing a bond required by law or otherwise of any officer or employee of the United States.]

"14. Purchase of bonds to cover officers and employees of the Government.

"The heads of the departments and independent establishments of the Government (including the Government of the District of Columbia) shall, and the appropriate officials of the legislative and judicial branches of the Government may, obtain blanket, position schedule, or other type of surety bonds covering civilian officers and employees, and military personnel thereof, required by law or administrative ruling to be bonded. Each bond shall be of the most economical type available for the number and type of personnel required to be bonded. The bond premium may cover a period not exceeding two years, and shall be paid from any funds available for the payment of administrative expenses at the time such premium becomes payable. If, in the opinion of the head of the department, or independent establishment concerned, the premium cost for any bond procured under this section covering officers or employees in the executive branch of the Government will exceed a rate of $250 per annum, procurement shall be made through the Administrator of General Services when so required by him pursuant to section 302 of the Federal Property and Administrative Services Act of 1949, as amended (41 U. S. C. 252)."

ANALYSIS OF TITLE VI OF THE UNITED STATES CODE

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[14. Rate of premium on bond; premiums not to be paid by United States.]
14. Purchase of bonds to cover officers and employees of the Government.

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